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Mr. Chairman, thanks for the invitation to discuss the current situation and outlook for U.S. agriculture. While the overall farm situation of the past couple years of generally weak markets continues, there are some signs of improvement. Global demand is slowly getting better, livestock prices and returns are for the most part up, global grain stocks are not excessive when compared with use, and reduced U.S. plantings could lead to lower grain stocks and higher prices in 2001. Nevertheless, a strong increase in farm prices and income from the marketplace for major crops appears unlikely, unless adverse weather leads to a shortfall in global crop production. In addition, increases in prices for energy-related farm inputs continue to push up farm production expenses, and adverse weather is reducing crop production prospects and delaying spring planting in some areas.

General Overview

The U.S. economy has benefitted from income growth, low unemployment, surging productivity, low inflation, and low interest rates the past several years. While these economic trends have also helped farmers and ranchers, other economic factors, such as foreign competition, a strong dollar, and economic recession in foreign countries reduced U.S. agricultural exports and prices received by farmers.

Our most recent monthly data for April 2001 shows some price improvement. The index of prices received by producers for all crops was up 4 percent from a year ago and the index of prices received for livestock and livestock products was up 11 percent. While farm prices are generally up,

they are recovering from unusually low levels. For the 1999/00 marketing year, the average price of soybeans was the lowest since 1972/73, the prices of corn and wheat the lowest since 1986/87, the price of rice the lowest since 1992/93, and the price of cotton the lowest since 1974/75. Cattle and hog prices were also relatively weak in 1999 but were up 6 and 31 percent, respectively, in 2000. Milk prices were relatively strong in 1999 but fell to a 9-year low in 2000.

Many producers, during the last several years, also have been adversely affected by weather-related problems and, more recently, increases in prices for energy-related inputs. Soil moisture levels remain very low in parts of the Southeast, Florida, west Texas, and the Northwest. Sierra snow pack levels, which provide water to California's reservoirs for electricity generation and farmland irrigation, were below normal this past winter. Cool and wet weather is delaying spring fieldwork in parts of the Midwest, and below normal rainfall in the Southern Plains last fall has adversely affected winter wheat stands and increased abandonment.

Congress responded to the problems caused by low commodity prices and adverse weather by authorizing nearly $25 billion in supplemental assistance the past three years, greatly limiting the farm financial stress that farmers and ranchers would otherwise have faced. These supplemental payments, plus payments authorized under the 1996 Farm Bill, pushed government payments to a record-high $22 billion in calendar year 2000 and Commodity Credit Corporation (CCC) outlays to a record $32 billion in Fiscal Year (FY) 2000. If Congress had not provided nearly $9 billion in supplemental assistance, net cash income would have likely fallen to $47.5 billion in 2000, the lowest level since the farm financial crisis of the mid-1980s. Instead, net cash income reached $56.4 billion in 2000, nearly $2 billion above the average of the 1990s.

Outlook for U.S. Agricultural Exports

In the mid-1990s, the value of U.S. agricultural exports rose sharply peaking at a record $60 billion in FY 1996, as world gross domestic product (GDP) grew at an annual rate of 3 percent and global grain and oilseed production fell about 4 percent. Over the next 3 years, the value of U.S. agricultural exports fell by nearly $11 billion, as good weather and strong prices led to an abrupt turnaround in world crop production and world economic growth, excluding the United States, dropped to 1.3 percent. In FY 2001, the value of U.S. agricultural exports is forecast to reach $53 billion, up from last year's $50.9 billion.

The outlook for agricultural exports generally appears more positive than in recent years. While world GDP, excluding the United States, is expected to slow from last year's high rate of nearly 4 percent, it is expected to continue to remain firm at over 2.5 percent in 2001 and above 3 percent in 2002. Several Asian, Latin American, and Middle Eastern countries that were in recession in 1998 and 1999 are now registering steady growth.

Another key factor for U.S. agricultural exports is the U.S. exchange rate. Between April 1995 and January 2001, the U.S. real agricultural trade-weighted exchange rate appreciated by 25 percent relative to the currencies of countries that import U.S. agricultural products, thus increasing the price importers must pay in terms of their own currency. And over this period, the U.S. dollar appreciated nearly 40 percent relative to the currencies of U.S. agricultural competitors, which helped insulate their producers from lower world prices. Declining interest rates and a slowing economy should weaken the dollar somewhat in 2001, making U.S. agricultural products modestly more

attractive to foreign buyers.

Outlook for Farm Income

In 2001, farm cash receipts are forecast to reach $200 billion, up $4 billion from last year and $16 billion from the average of the 1990s, although $8 billion below the record set in 1997. Compared to 1997, crop receipts are projected to be down $11 billion in 2001, while livestock receipts are forecast to be up about $3 billion. These figures mask steep declines in cash receipts and income for major field crops. Cash receipts for grains, soybeans, and cotton declined from a record $57 billion in 1997 to $43 billion in 2000 but are projected to increase slightly to $45 billion in 2001.

Despite improving cash receipts, USDA currently forecasts a decline in net cash farm income in 2001 to under $51 billion, down from $56.4 billion last year, as production expenses continue to rise and government payments decline. This decline assumes no supplemental assistance for the 2001 crops. Increases in petroleum prices and prices for other production inputs increased farmers' production expenses by 4 percent or $7.6 billion in 2000, with higher fuel and oil prices accounting for about one-third of the increase. In 2001, farmers' total cash production expenses are forecast to increase $1.5 billion to a record $179.5 billion. Higher petroleum and natural gas prices have increased the prices of diesel fuel and nitrogen fertilizer, and repair, marketing, and labor costs are also expected to increase in 2001.

Government payments have offset much of the decline in major crop cash receipts since 1998, helping to maintain producers' cash flow. Direct government payments to farmers reached a record $22 billion last year, up from $8 billion in 1997. In 2000, direct government payments included nearly

$5 billion in Production Flexibility Contract (PFC) payments, $6.4 billion in loan deficiency payments, $2 billion in conservation program payments, and nearly $9 billion in supplemental (crop and market loss) assistance.

In calendar 2001, government payments are projected to decline about $8 billion to slightly over $14 billion. With no supplemental aid legislation in place for the 2001 crops, supplemental assistance to farmers and ranchers is forecast to fall from nearly $9 billion last year to about $3.5 billion in 2001. The supplemental assistance that is expected to be paid out in 2001 was authorized by Congress last year to cover crop and market losses producers incurred in 2000. Scheduled annual reductions in PFC payments under the 1996 Farm Bill and lower loan deficiency payments, reflecting improving prices for major crops, are forecast to reduce government payments by $2.5-$3.0 billion in 2001.

Net cash farm income on a crop year basis for the major field crops--wheat, rice, corn, sorghum, oats, barley, cotton and soybeans--excluding government payments was quite low for the 1999-2000 crops and is projected to remain low in 2001. Net cash farm income for major field crops averaged $43.4 during 1999-2000 and is projected to rise to $46 billion for crop year 2001, compared with the average of $51 billion during the 1990s and $54.5 billion for the 1995-99 crops. Direct government payments were equal to three-fourths of net cash income for major field crops in 1999 and more than two-thirds of net cash income in 2000. In 2001, net cash income for major field crops is projected to fall by more than $6 billion. The projected decline in income in 2001 is about equivalent to the amount of market loss assistance Congress authorized last year for major field crops.

Outlook for Farm Finance

Farm financial conditions remain stable, aided by record government payments and greater off-farm income. The debt-to-asset ratio remains stable at about 16 percent, down from 23 percent during the farm financial crises of the mid-1980s, and farm real estate values and land rental rates generally continue to rise. All major farm lender institutions continue to experience historically low levels of loan delinquencies, foreclosures, net loan charges, and loan restructuring. At the end of 1999, nearly 60 percent of all farms reported they had no outstanding debt.

Farm debt rose 2.4 percent in 2000, surpassing $180 billion for the first time since 1984. In 2001, farm debt is forecast to increase to slightly under $183 billion. As a percent of the value of farm assets, farm debt is expected to remain unchanged from last year's 16.1 percent. Even though farmers' balance sheets are much improved from the mid-1980s, the forecast drop in farm income in 2001 would reduce somewhat farmers' ability to repay existing debt. In 2001, farmers are forecast to use, on average, 65 percent of their maximum feasible debt--which is termed debt repayment capacity utilization (DRCU) and is calculated based on income and interest rates. This use of feasible debt would be up from 60 percent in 1999 and 2000.

USDA research suggests that commercial farms that cannot service their debt and stop performing on their loans usually have debt equal to 240 percent or more of their maximum feasible debt. In both 1999 and 2000, about 50,000 of the nation's 512,000 commercial farms had debt of 240 percent or more of maximum feasible debt. In 2001, the number of commercial farming operations with debt of 240 percent or more is forecast to increase to 70,000.

In addition to record government payments, improved off-farm income opportunities for farm households have helped avoid more serious farm financial problems. Off-farm earnings are a significant

source of income for farm households and help insulate them from financial difficulty when the farm economy weakens. Eighty percent of all farmers or their spouse are employed off the farm. In recent years, about 90 percent of the total income of the average farm household is derived from off-farm sources. Earnings of farm operator households from off-farm sources averaged an estimated $60,000 in 2000, up from less than $36,000 in 1992. Combining income from farm and off-farm sources, farm operators averaged over $64,000 in total household income in 1999, about 17 percent higher than the average income of all U.S. households.

While nationally farm financial conditions appear secure, regional and sector problems persist. The combination of low prices and adverse weather in the Southeast, southern plains and elsewhere has contributed to regional pockets of farm financial stress. In addition, production agriculture consists of a diverse group of farms and ranches with varying degrees of financial success, which a single aggregate performance indicator such as net farm income cannot capture.

Farm Financial Characteristics by Farm Type

Net cash income and net farm income are single dimension indicators that can be used to track sector performance over time. Aggregate performance measures, however, mask the wide distribution of earnings in the farm sector, discount off-farm income and wealth, and do not reveal debt service problems or signal the occurrence of farm failures. The farm typology, recently developed by the Economic Research Service, provides a useful framework for examining the wide array of farm and farm household financial circumstances exhibited by the sector today.

When crop prices are low and aggregate farm income falls, the common expectation is that farm household income will also decline leading to a lower standard of living for farm families.

However, for the majority of farm households (62 percent), the farm business operator's primary occupation is something other than farming. Indeed, the financial well-being of most farm families is much more dependent on general economic conditions and the local economy and than on commodity prices.

That said, the condition of the farm economy matters most to the 800,000 farm households in which the primary occupation of the operator is farming. Farm households in which the primary occupation of the operator was farming had an average household income of $55,000 in 1999, compared with $70,000 for farm households in which the primary occupation of the operator was something other than farming. Nearly one in three farm-dependent households had consumption expenditures that exceeded household income. These households had to withdraw from savings, or borrow or liquidate assets in order to accommodate income short falls.

A common perception is that low returns from farming lead to a low rate of wealth creation for farm households. On average, farm households are wealthier than their non-farm counterparts and have seen their wealth increase at a faster rate during the 1990s than non-farm households. Much of this wealth advantage is associated with the ownership of farmland. Agricultural land values have steadily increased in the last decade and these gains are in part attributable to government payments.

According to data collected through USDA's Agricultural Resource Management Study (ARMS), slightly over 40 percent of all farm operators received farm program payments in 1999. Recipients of farm program payments tend to be concentrated in the largest farm typology classes, since payments are principally based on current or historical plantings of program crops. About 80 percent of full-time family farms with sales between $100,000-$500,000 (farming occupation/higher

sales and large family farms) received farm program payments. These two groups, consisting of 12 percent of all farms, received 46 percent of total government payments to farm operators in 1999 and, on average, farm program payments made up 14 percent of gross cash income on these farms. Family farms with sales of $500,000 or more, 3 percent of all farms, received 22 percent of total farm program payments and, on average, each farm received just over $85,000 in government payments. Farm program payments accounted for about 6 percent of gross cash income on these very large farms. Limited-resource family farms (small farms with less than $100,000 in gross sales, farm assets less than $150,000 and total operator household income less than $20,000), 6 percent of all farms, received $4,000 in government payments, on average, but these payments accounted for over 25 percent of average gross cash income on these farms. About 1 percent of farm program payments went to limited-resource family farms in 1999. Larger farms received more of their government payments from PFC payments and loan deficiency programs, while smaller farms received more of their payments from the Conservation Reserve Program (CRP).

Slightly over 40 percent of all farms reported having outstanding farm debt at the end of 1999, indicating that debt is not a source of capital for the majority of farms. Farm loan delinquency rates (percent of loans with payment past due 30 days or more) peaked in 1987 at 11 percent of total loan volume and declined throughout most of the 1990s, remaining around 3 percent for the last several years. Comparison of actual debt levels with the maximum amount of debt that can be serviced by household income suggests that 17 percent of farm households experienced debt repayment problems in 1999. Repayment problems varied ranging from 10 percent for retirement farm households, which borrowed primarily for non-farm purposes, to nearly one in four for large family farms.

The American Bankers Association (ABA) conducts a survey of agricultural banks to track the number of farms going out of business each year. The majority of farm sales are normal attrition and voluntary liquidations (80 percent). Farm bankruptcy filings peaked at 4.2 percent in 1986 and ranged between 1 and 2 percent for most of the 1990s.

Outlook for Major Crop and Livestock Commodities

Major crop prices for the 2000/01 season are generally expected to register modest improvement from last year, reflecting another year of large global production of major crops and ample stocks. While it is too early to predict a substantial recovery in major crop prices in 2001, global stock levels going into the 2001 season are projected to be down from a year earlier. At the end of this season, global grain stocks are projected to be down 11 percent from a year ago and the lowest since 1996/97. As a result, world grain prices could move up sharply if weather adversely affects global crop production over the next several months.

In 2000, U.S. producers planted the lowest ***wheat*** acreage since 1973. Wheat prices this marketing year are forecast to average $2.60-$2.70 per bushel, up from last season's $2.48. The increase in prices reflects lower total supplies, increasing total use, and declining world and U.S. carryover stocks. Total use is forecast to increase by 44 million bushels over last year's nearly 2.4 billion bushels, as food use, feed use, and exports are all expected to register modest gains. Wheat exports are projected to reach 1.1 billion bushels, the highest since the 1995/96 season. A major factor supporting higher exports was weather, as weather reduced the size of Australia's crop and the quality of EU's crop in 2000. Ending stocks are forecast to fall for the second consecutive year, from 950 million bushels at the end of last season to 829 million bushels at the end of this marketing year.

Lower wheat supplies in 2001/02 could lead to another year of reduced carryover and improved farm prices. Growers have indicated intentions to plant 60.3 million acres to wheat in 2001, down 4 percent from 2000. Some of the winter wheat was seeded late because it was initially very dry followed by very wet weather. As a result, much of this wheat did not emerge until spring, and the wheat that did emerge last fall was in poor shape going into the winter. Over one-third of the winter wheat crop in Kansas and Oklahoma currently is rated in very poor or poor condition. Some producers are leaving the land fallow or tearing the wheat up and planting row crops. Others are grazing cattle on their winter wheat acreage or planning to cut the wheat for hay. Also, spring wheat plantings have been stalled in some parts of the Northern Plains because of flooding and wet conditions. While weather conditions in coming weeks will be very important, the poor condition of winter wheat in parts of the Southern Plains and sparse rains in the Pacific Northwest is likely to lead to lower wheat yields in 2001.

The 2000/01 ***corn*** crop of 9.97 billion bushels was the second highest on record, as plantings expanded by 2 million acres and growing conditions were generally quite favorable for much of the Midwest. The bigger crop and large beginning stocks resulted in the largest supplies of corn since 1987/88. With total supplies up sharply from one year ago, ending stocks are forecast to increase by over 230 million bushels from last season's 1.72 billion bushels to the highest level since 1992/93. Total corn use this season is projected to reach a record 9.75 billion bushels, compared with last season's 9.52 billion bushels, primarily reflecting expanding domestic use. Both feed use and food, seed and industrial use are expected to reach record levels. Corn used for alcohol production is projected to total 615 million bushels, up 9 percent from a year earlier and up 50 percent from a

decade ago. Corn exports are expected to be about unchanged from last year, even though foreign corn production is down about 10 percent this season. Concerns about the potential presence of StarLink in U.S. corn likely contributed to Japan and South Korea purchasing more corn from Argentina and Brazil. The farm price of corn for the 2000/01 marketing year is forecast to average $1.80-$1.90 per bushel, compared with last year's $1.82 per bushel.

Higher natural gas prices will increase corn producers' fertilizer and irrigation costs in 2001. These higher costs are expected to reduce corn plantings in 2001. In early March, corn growers indicated they intend to plant 76.7 million acres of corn in 2001, down 4 percent from 2000 and down 1 percent from 1999. Below-normal temperatures, combined with excessive moisture, is delaying corn plantings in some areas, but corn planting progress overall is only marginally below the 5-year average. Depending on the weather over the next few weeks, corn plantings could advance rapidly with little loss in yield potential. Assuming normal weather, lower acreage, another year of good export opportunities supported by continued global economic growth, and expanding ethanol use would reduce ending stocks by several hundred million bushels, strengthening market prospects for corn in 2001/02.

Soybean plantings and production were record-high in 2000. Soybean production reached nearly 2.8 billion bushels, up 4 percent from a year earlier, which more than offset lower carry-in stocks and caused total soybean supplies to increase about 2 percent in 2000/01. Most of the increase in supplies is expected to go into higher total use. Domestic crush is forecast to exceed the record set in 1998/99 by 1 percent and U.S. soybean exports could eclipse last year's record of 973 million bushels by 2 percent. Still, with ample supplies, soybean prices for 2000/01 are projected to average $4.45-

$4.55 per bushel, compared with last season's $4.63.

Less fall planted wheat, higher fertilizer prices, planting flexibility, and the benefits of the soybean marketing loan program provide an incentive for producers to further expand soybean plantings in 2001. In early March, producers indicated they intend to plant a record 76.7 million acres to soybeans in 2001, up 3 percent from last year. Continued delays in corn plantings caused by excessive moisture and cool temperatures could lead to some additional acreage being planted to soybeans. Assuming normal weather, higher acreage could lead to another year of record soybean production and rising carryover, although total use could also reach another record in 2001/02. The EU's ban on the use of meat and bone meal in animal feeds could raise soybean meal exports, but foreign competition is likely to remain intense. Under the pressure of rising stocks, soybean prices could fall further during the 2001/02 marketing year.

Cotton production rose 1 percent in 2000, even though drought caused significant yield losses in some areas of the country. Despite a slightly higher total supply, U.S. cotton mill use is projected to decline from last season's 10.2 million bales to 9.3 million bales, as textile imports continue to grow. Reflecting the sharp decline in domestic mill use and modestly higher exports, stocks of cotton at the end of the 2000/01 season are projected to reach 5 million bales, a 12-year high. From August 2000 through February 2001, the farm price of cotton averaged 54.6 cents per pound, compared with last year's season average price of 45 cents. However, prices have sunk recently as production in both China and the U.S. is likely to expand this year.

Farmers intend to plant 15.6 million acres to cotton in 2001, up less than 1 percent from last year. This would be the largest cotton acreage since 1995 and the second largest since 1962.

Assuming a return to more normal weather, total cotton supplies for the 2001/02 season could reach the highest level in 35 years. With a rebound in domestic mill use unlikely, U.S. cotton exports would need to reach a nearly unprecedented 10 million bales to prevent 2001/02 carryover from surpassing projected carryover for the 2000/01 season. Strong competition for export markets and large supplies are expected to continue to pressure U.S. cotton prices during the 2001/02 season.

Rice production, in 2000, fell 7 percent from the record of 206 million cwt. set in 1999, causing total supplies at the beginning of the crop year to decline 4 percent from the previous year. Total carryover stocks are projected to fall from last season's 27.5 million cwt. to 24.3 million cwt. at the end of this season, as the drop in total supplies is projected to be partially offset by lower total use. This season, the farm price of rice is forecast to average $5.65-$5.75 per cwt., compared with last season's $5.93. Producers indicated in early March that they intend to increase rice plantings by 1 percent in 2001.

Large ***sugar*** production in 1999/00 resulted in large forfeitures of sugar to the CCC last year. In order to reduce government inventories of sugar and prevent additional forfeitures, USDA announced a Payment-in-Kind (PIK) Program for 2000-crop sugar under which beet producers could elect to divert a portion of their contracted acreage from production in exchange for in-kind payments in the form of CCC-owned sugar. Under the program, 102,000 acres of beet sugar were diverted from production in 2000 cutting sugar production by an estimated 275,000 tons. On April 1, 2001, the CCC owned nearly 800,000 tons of sugar. For all of 2000/01, sugar production is down an estimated 552,000 tons, which has reduced, but not eliminated, the prospect of additional forfeitures to the CCC in 2001. For the 2001/02 season, farmers indicated plans to reduce sugar beet planted acreage, mainly

in California and the Plains states. Looking ahead, import commitments under existing international trade agreements (including Mexico), the potential for over quota or second tier imports from Mexico, continuing imports of sugar-containing products that are exempt from import restraint and trend growth in U.S. yields could continue to pressure sugar prices, leading to further CCC stock accumulation over the next several years, unless U.S. sugar production declines.

In 2000, ***hog*** prices averaged $44.70 per cwt. for the year, up 31 percent from a year earlier. Responding to low returns, producers began to reduce their breeding herds in late 1998 and continued to reduce them in 1999 and through much of 2000. Responding to improved returns, producers began increasing farrowings at the end of 2000. The increase in farrowings is expected to cause pork production to rise about 1 percent in 2001. Hog prices are forecast to average $42-$44 per cwt. in 2001, but rising hog and poultry production could push hog prices to the mid-$30 range during the fourth quarter.

In 2001, liquidation of the nation's ***cattle*** herd is expected to finally lead to reduced beef production. In 2000, lower cattle and calf numbers did not translate into less beef production, as record slaughter weights and increased placements of cattle in feedlots, due to reduced forage supplies caused by dry weather, led to record beef production. The most severe winter since 1992/93 reduced fed beef production and increased cow slaughter during the first quarter of 2001. Net placements of cattle on feed during March were 12 percent below 2000 and 14 percent below 1999 levels. During the last half of 2001, reduced placements of cattle on feed are expected to lead to a 5-percent decline in beef production. For all of 2001, beef production is forecast to be down 4 percent, with choice steer prices averaging $74-$77 per cwt., compared with $69.65 in 2000 and $65.56 in 1999.

Recent concerns over Bovine Spongiform Encephalopathy (BSE) and outbreaks of foot-and-mouth disease (FMD) in a number of countries are expected to have little impact on U.S. livestock markets. The United States has banned beef imports from the EU since 1996, so the recent outbreak of FMD in the United Kingdom, Ireland, France, and the Netherlands is not expected to directly affect U.S. beef imports. The United States exports grain-fed beef which is higher priced than EU grass-fed product, so these products do not compete in the same markets.

The United States imports pork from a number of EU countries, primarily Denmark, and imports of fresh, chilled, and frozen pork products are now banned. However, the amount of EU pork imports covered by the ban represents just 0.6 percent of total U.S. pork consumption. Although a number of countries have bans in place on imports of EU pork, imports to South Korea, Taiwan, and Russia had been forecast to decline after EU subsidies were dramatically reduced in mid-2000. On April 25, Japan lifted its ban on imports of pork from Denmark, the major U.S. competitor. This allows Japanese importers to resume imports of Danish product instead of switching to pork from North America. Expansion of U.S. exports to Russia will be limited by Russia's recent announcement that it will allow red meat imports from most of the EU.

Broiler prices are projected to average 57-60 cents per pound in 2001, compared with 56.2 cents per pound in 1999. In response to low prices through most of 2000, producers have reduced the rate of expansion in broiler production. In 2000, broiler production rose 2.5 percent which followed a 7-percent increase in 1999. In 2001, broiler production is forecast to increase by 1 percent. Broiler exports continue to show considerable strength. In 2001, broiler exports are forecast to reach 5.7 billion pounds, up 3 percent from last year and up 16 percent from two years ago.

Increased ***milk*** production caused milk prices to collapse at the end of 1999, as producers responded to two consecutive years of strong returns. In 2000, the all-milk price averaged $12.40 per cwt., a 9-year low. In response to the collapse in milk prices, Congress authorized payments of $0.65 per cwt. to dairy producers on production of up to 39,000 cwt. and extended the price support program for milk through the end of calendar year 2001. Extension of the price support program, rising milk production, and a desire to maintain dairy producers' incomes has led to the largest government purchases and inventories of nonfat dry milk since the mid-1980s. On April 1, 2001, the CCC held 772 million pounds of nonfat dry milk in inventory.

Cow numbers have begun to decline in response to last year's low milk prices and cold winter weather caused milk production per cow to fall in the first quarter. These factors are expected to cause milk production to decline in 2001, following increases of over 3 percent in both 1999 and 2000. Declining milk production and continued increases in demand for dairy products caused wholesale butter and cheese prices and farm-level milk prices to increase sharply in recent months. The all-milk price is forecast to average $13.85-$14.35 per cwt. in 2001, compared with the average of $13.57 per cwt. during the 1990s.

The outlook for ***horticultural crops*** is very uneven. As a group, cash receipts for horticultural crops are projected to be up in 2001 and the value of exports is forecast to reach a record $11.3 billion in FY 2001. However, farm prices for some horticultural crops, including apples, cranberries, grapefruit, lemons, pears, and potatoes, are being adversely affected by large supplies. In addition, irrigation water constraints and higher electricity prices in the west are likely to cause some reduction in horticultural production, particularly for processing vegetables.

Longer term Outlook

Over the next several years, the market situation for major crops is expected to gradually improve. Rising world demand and continued progress toward freer trade are projected to lead to steady increases in U.S. agricultural exports and farm prices and cash receipts for major crops. Increases in domestic food, feed, and industrial uses could also contribute to higher farm prices for major crops. Assuming no additional supplemental aid and continuation of current farm programs, farm income could fall below recent levels over the next few years, as gains in cash receipts fail to offset sharply lower government payments. Farm program spending carried out through the CCC is projected to decline to $20 billion in FY 2001 and to $13 billion in FY 2002 before stabilizing at $8-$10 billion thereafter under continuation of current law. Beyond the next few years, the outlook for the farm sector improves as expanding exports further strengthen farm commodity prices and increases in farm income and farm asset values help to moderate farm financial stress.

Mr. Chairman, that completes my testimony and I would be pleased to respond to questions.